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New Orleans, Louisiana

November 3, 1998

United States Department of the Interior
Minerals Management Service
Royalty Management Program
Sixth Avenue and Kipling Street
Denver Federal Center
Denver, Colorado 80225

Attention: Mr. Greg Kann

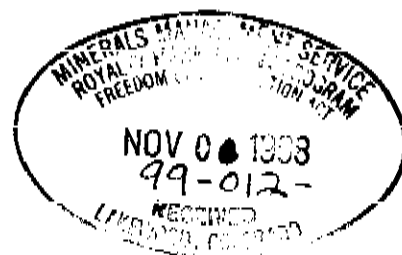
Re: FREEDOM OF INFORMATION ACT REQUEST
Our File No. 78460.211

Dear Mr. Kann:

This law firm is representing Shell Offshore Inc. ("Shell") in connection with Shell's appeal of an order issued by the Minerals Management Service ("MMS"), dated September 21, 1998, pertaining to Shell's payment of royalties on production from the Auger platform (the "Order"). A copy of the Order is attached hereto. Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, and the provisions of 43 CFR § § 2.11 et seq., on behalf of Shell we request copies of the documents described below.

These documents are being requested for commercial use. This law firm agrees to pay all fees chargeable under the regulations, 43 CFR § 2.20, for locating, reproducing and mailing the requested documents. However, if such fees exceed, or are anticipated to exceed \$700.00, please call me at (504) 556-4131 before you proceed any further with responding to this request.

For purposes of the following requests, (a) the term "document" means all written or recorded material of any kind or character in your possession, custody or subject to your control, or within your knowledge, including, without limitation, documents, statements, letters, correspondence, papers, telegrams, memoranda, notes, records, reports, studies, interoffice communications, calendar and diary entries, microfilm, bulletins, electronic mail, circulars,



pamphlets, messages, invoices, maps, charts, tabulations, summaries or abstracts, tape recordings, work sheets, any notes or writings pertaining to any meetings, oral or telephone communication, surveys, graphs, statistics, tables, any computer print-outs, photographs, rules, regulations, opinions, orders, directives, interpretations, procedures, guidelines, manuals, and all other documentary material (including material transmitted and/or stored electronically), including non-identical copies (whether different from the original because of any alterations, notes, comments or other material contained thereon or attached thereto or otherwise, and whether a draft or final version); (b) the term "relating to" and its cognates means to make a statement about, set forth, refer to, discuss, describe, reflect, identify, deal with, consist of, explain, comprise, or in any way pertain in whole or in part, directly or indirectly, to the subject.

Please separately identify which documents are responsive to which of the following requests

Request No. 1:

All documents that relate to the issuance of the Order, including (but not limited to) the records, documents, workpapers, correspondence, notes, drafts, guidelines, manuals, instructions, handbooks, reports, opinions, studies, and materials possessed, compiled, prepared, examined, reviewed, created, relied upon, and/or referred to by MMS auditors, personnel, representatives, or designees.

Request No. 2:

Any communications during the period 1/1/88 to the present between the MMS and any federal Outer Continental Shelf lessee concerning royalties associated with flared or vented gas.

Request No. 3:

All documents relating to MMS interpretations, policies, practices, procedures or methodologies pertaining to 30 CFR § 250.175(a)(1)(1997) (redesignated as 30 C.F.R. § 250.1105(a)(1) (1998)), including (but not limited to) such documents pertaining to the words "small volumes" and "economically recovered," as those words are used in the regulation.

Request No. 4:

All documents relating to MMS interpretations, policies, practices, procedures or methodologies pertaining to 30 CFR § 202.150(c)(1997), including (but not limited to) such documents pertaining to the words "avoidably lost or wasted," as those words are used in the regulation.

Request No. 5:

All documents relating to MMS interpretations, policies, practices, procedures or methodologies pertaining to 30 U.S.C. § 1756.

Request No. 6:

All documents relating to the following statements contained in the Order:

The Rate Control Unit in the Gulf of Mexico OCS Regional Headquarters has consistently treated vent rates of less than about 50 Mcf per day as uneconomic to recover. If rates over 50 Mcf per day are found, the Rate Control Unit requires the operator to submit economic analyses to show that the gas is uneconomic to recover. In the past, the highest vent rates determined to be uneconomic were in the 100 to 150 Mcf ranges.

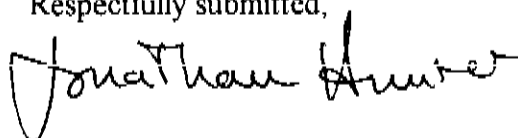
Your response should include, but not be limited to, copies of any communications between MMS and offshore operators relating to the matters discussed in the above-quoted language.

Request No. 7:

To the extent not otherwise responsive to the foregoing requests, any communications between the MMS and any federal Outer Continental Shelf lessee concerning NTL-4A (published at 44 Fed. Reg. 76600, 12/27/79).

Please acknowledge your receipt of this letter by noting the date and time thereof on the enclosed copy of this letter and returning that copy to me in the enclosed envelope. Thank you for your assistance in this regard.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jonathan Hunter". The signature is fluid and cursive, with the first name "Jonathan" being more prominent than the last name "Hunter".

Jonathan A. Hunter
Attorney for Shell Offshore Inc



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

SEP 21 1998

JA 98-20022.000

HAND DELIVERED

Shell Oil Company
Attention: Ms. P. A. Lallinger
Manager, Federal Royalty Administration
Shell Services Company
701 Poydras Street
One Shell Square - Room 725
New Orleans, Louisiana 70139

Gentlemen:

**ORDER TO PERFORM RESTRUCTURED ACCOUNTING
AND TO REPORT AND PAY ADDITIONAL ROYALTIES**

The Minerals Management Service (MMS) orders Shell Oil Company (Shell) to calculate and pay royalty on avoidably lost gas vented from dry and wet tanks on the Auger Platform for the period from April 1994 through the present.

What is the basis for this order?

We based our determination on an MMS analysis of unauthorized and unreported flaring from the Auger Platform, and information that Shell provided to MMS in a meeting on September 9, 1998.

On July 17, 1998, MMS personnel observed flaring on the Auger Platform. An MMS inspector visited Auger on August 26 and 27, 1998, to review the flaring records. The records did not show gas volumes from the oil tanks. However, Shell has since confirmed that the source of the flaring was the gas vented from the oil tanks.

The Auger Platform came on production in April 1994. The facilities on the Auger Platform process only production from Auger. From initial production, facilities on Auger have been unable to handle all low-pressure gas released from the wet and dry oil tanks. As production rates increased, flaring also increased.

What is your position on the issue?

Shell contends that, relative to total production at Auger, the 6,000 Mcf per day vent rate is small (about .6% of total equivalent energy produced and 2.0% of gas produced). Further, Shell argues economic unfeasibility, stating that a \$10 million expenditure would be necessary to recover the vented gas.

What is our position?

From telephone conversations with Shell employees and the September 9, 1998, meeting, we determined that Shell is venting about 6,000 Mcf per day. We also confirmed that Shell made no attempt to notify MMS or request approval to flare. In addition, we determined that Shell was not reporting any of the vented gas on its Oil and Gas Operations Reports (OGOR), Part B. In fact, Shell stated it has removed the meter initially installed on the vent line from the oil tanks.

The estimate of royalties due on Auger gas vented to date is in excess of \$1 million.

Flaring of Vent Gas

Title 30 CFR §250.175 (a) (1997) states, in part:

Lessees may flare or vent oil-well gas or gas-well gas without receiving prior approval from the Regional Supervisor only in the following situations:

(1) When gas vapors are flared or vented in small volumes from storage vessels or other low-pressure production vessels and cannot be economically recovered. * * *

The Rate Control Unit in the Gulf of Mexico OCS Regional Headquarters has consistently treated vent rates of less than about 50 Mcf per day as uneconomic to recover. If rates over 50 Mcf per day are found, the Rate Control Unit requires the operator to submit economic analyses to show that the gas is uneconomic to recover. In the past, the highest vent rates determined to be uneconomic were in the 100 to 150 Mcf range. The venting at Auger is 40 to 60 times this range.

Shell contends that a 6,000 Mcf per day vent rate is small relative to total production from Auger. However, 30 CFR § 250.175 (a) (1) refers to "small volumes," not small volumes relative to total production.

Reporting

Since the start of production at Auger, Shell apparently has not reported any of the gas vented off the oil tanks on the OGOR-B. Shell claims that only flared gas must be reported on the OGOR-B. However, the Production Accounting and Auditing System handbook clearly requires that all flared and vented gas be reported on the OGOR-B.

What must you do under this order?

To comply with the regulations, you are ordered to do the following within 30 days of receiving this letter:

- 1) Calculate, report and pay royalties on gas vented from the Auger platform for April 1994 through present.
- 2) Begin reporting and paying royalties on vented gas in accordance with MMS's regulations.

How do you report and pay?

We recommend that you report and pay electronically. When paying, please

- Use procedures outline in 30 CFR Part 218 (1997).
- Use adjustment reason code 41 on form MMS-2014.
- Call (800) 525-0309 for assistance in reporting and paying.

If you do not report and pay electronically, please see Enclosure for a green Form MMS-2014 with instructions.

Will you owe late payment charges?

After we receive payment, we will compute late-payment charges and bill you as required by 30 CFR §218.150 (1997).

What are the audit standards?

Our audits follow generally accepted government auditing standards set by the Comptroller General of the United States and published in Government Auditing Standards (1994 Revision). We include such tests as we judge necessary under the circumstances.

What if you do not comply with this order?

We may assess civil penalties if you do not comply with the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) or any related statute, regulation, rule, order, or permit. We are authorized

to make such assessments by Section 109 of FOGPMA and 30 CFR §241.51 (1997). Under 30 CFR §241.51, we may regard your noncompliance as a violation and assess you up to \$5,000 per day for each violation. If we consider the violation willful, the daily penalty is \$10,000 for each violation.

You must keep all documents supporting your compliance with this order until we complete our follow-up testing. If you have not performed the required accounting or pay future royalties in compliance with this order, we may treat the violation as willful.

Can you appeal this order?

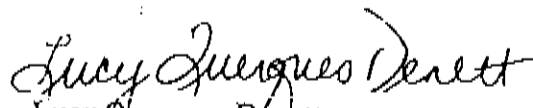
You can appeal this order under 30 CFR Part 200 (1997). If you appeal, we may suspend the order under 30 CFR §243.2 (1997). You must file your notice of appeal within 30 days of receiving this order with:

Erasmo Gonzales, Chief
Houston Compliance Division
Minerals Management Service
Royalty Management Program - HCD
4141 N. Sam Houston Parkway E., Suite 202
Houston, Texas 77032-3843
FAX: (281) 987-6808

What if you have questions?

If you have questions, please call Erasmo Gonzales at (281) 987-6802.

Sincerely,


Lucy Querques Denett
Associate Director for
Royalty Management

Enclosure